

Pan Himalaya Energy Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	10,312.41	CARE-NP BB [Double B]	Reaffirmed
Total Facilities	10,312.41 (Ten Thousand Three Hundred Twelve Million and Forty-One Thousand Only)		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating to 'CARE-NP BB' to the long-term bank facilities of Pan Himalaya Energy Limited (PHEL).

Detailed Rationale & Key Rating Drivers

The reaffirmation in rating assigned to the PHEL factors in residual project implementation and funding risk, offtake risk for additional energy, hydrology risk associated with run-of-the-river power generation and exposure to volatile interest rate risk and regulatory risk.

The rating derives strengths from strong promoters and experienced management team, presence of power purchase agreement (PPA) with sufficient period coverage and moderate counter party risk. The rating also factors in current demand & supply gap however possible oversupply in future and government support for the power sector.

Going forward, timely execution of the project within cost and time estimates along with generation of expected revenue thereafter will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Residual Project implementation and Funding risk

The estimated cost of 77 MW hydro power project increased by ~39% to Rs. 12,854.84 Mn which is proposed to be funded in Debt equity ratio of 80:20 (i.e., Rs 10,283.87 Mn term loan and Rs. 2,570.97 Mn equity). The project cost increased mainly due to modification in the design of project and increase in cost of turbine and generator. The debt amount of Rs. 3,323 Mn is yet to be tied up; however, in principal commitment has been received from the banks. Till Mid-January, 2022, ~70% of financial progress has been achieved i.e., Rs. 8,946 Mn cost incurred out of total budgeted cost of Rs. 12,854 Mn. As the project is the middle stages of its implementation, this exposes the company towards project execution in terms of partial yet to be tied-up debt, completion of the project with-in the envisaged time and cost. Furthermore, the company also remains exposed to the risks associated with post project implementation and satisfactory operations thereafter to achieve the envisaged revenue.

The power generated from the project is proposed to be evacuated to the under construction Likhu-2 hydropower project which would be connected to Likhu-A hydropower project both of which is being developed by MV Dugar Group. The same is further evacuated from Likhu-A to operational New Khimti Substation. Timely completion of the transmission lines by PHEL and smooth evacuation of power remains crucial from revenue generation perspective.

Offtake risk for additional energy

Total installed capacity of the plant is 77 MW; however, PHEL has entered into agreement with NEA on take or pay basis only for 51.40 MW at contracted PLF of 62.82%. The remaining 25.60 MW, which would be on take and pay basis (power purchase agreement is yet to be signed), is exposed to offtake risk. However, expected sale of energy to India, through existing cross

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

border transmission line between India and Nepal argues well for the company, offtake risk for 25.60 MW is mitigated to an extent.

Hydrology risk associated with run-of-the-river power generation

Run-of-the-river power is considered an unsteady source of power, as a run-of-the-river project has little or no capacity for water storage and therefore is dependent on the flow of river water for power generation. It, thus, generates much more power during summer season when river flows are high (Mid-April to Mid-December) and less during the winter season (Mid-Dec to Mid-April). The project is proposed to utilize discharge from Likhu Khola having catchment area of 253 sq. kms based on snow-fed river. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

Exposure to volatile interest rate

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. The volatility in interest rate is more evident currently on account of the ongoing liquidity stress in the economy, with substantial upward pressure on interest rates in the last 2-3 quarters. Any further significant rate hikes could put increased interest burden on the company, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the company from BFIs is subject to volatile interest rate.

Exposure to regulatory risk

Government of Nepal (GoN) has recently established Electricity Regulatory Commission (ERC) for regulating generation, transmission and distribution of electricity in Nepal. ERC will be the regulator under the GoN which will be responsible for regulating hydropower companies in Nepal. Policies and the directives issued by ERC like approval process for IPO issuance, PPA approval through ERC poses a new challenge to hydropower companies. Hence, sector is prone to regulatory risk and changes in other policies by GoN.

Key Rating Strength

Strong promoters and experienced management team

PHEL is part of MV Dugar Group which has business across different sectors along with Banks, Insurance, Automobiles, Construction etc. Mr. Motilal Dugar, Chairman of PHEL and Executive Chairman of the group, is established businessman of Nepal and has more than 47 years of experience and is Chairman of Sunrise Bank Limited [CARE-NP A-]. The company's management team is led by Mr. Vipin Arora, Chief Executive Officer of the company and has more than 42 years of experience in various organizations related to hydropower and energy sector. He is supported by other experienced management team.

Power purchase agreement with sufficient period coverage

PHEL had entered into a long term PPA with NEA in 2015 for sale of 51.4 MW power to be generated from the project on take or pay basis. The contracted energy for 51.4 MW is 282.87 Million Units (MU) annually at Plant Load Factor (PLF) of 62.82%. PPA has been entered for the period of 30 years from the COD or till validity of generation license whichever is earlier.

Tariff rate as per PPA is Rs 4.80 per kWh for wet season (Mid-April to Mid-December) and Rs 8.40 per kWh for dry season (Mid-December to Mid-April) with 3% annual escalation on base tariff for 8 years. Required Commercial Operation Date (RCOD) of the project was extended to November 27, 2021. The company is in the process of taking necessary approvals for extension of RCOD with NEA. It is crucial for the company to take necessary extension of RCOD approvals and thereafter timely completion of project within the RCOD to avail the benefits of all the escalations.

Further, PHEL is in process of amending PPA to increase the capacity of the project to 77 MW which has been approved by NEA however, pending to be approved by Electricity Regulatory Commission (ERC). The company has estimated the additional energy of 78MU from the enhanced capacity of 25.6MW on take and pay basis. The PLF for the additional energy is 34.78% and additional

energy is projected to be generated only during the wet seasons and the tariff rate is estimated to be Rs. 4.80 per kWh during wet seasons with 3% annual escalation on base tariff for 8 years.

Favorable Government policies towards power sector

Government of Nepal (GoN) considers hydropower generation as priority sector and intends to maximize private sector participation in generation of hydroelectricity by offering different exemptions and facilities. GoN has announced full tax exemption for first 10 years and 50% tax exemption for next 5 years for such person/entity who starts commercial operation, transmission and distribution of electricity up to mid-April 2024. As per various directives from NRB whereby all the banks (type A, B C, D) have to allocate minimum share of their total advances to energy sector which argues well for the sector.

About the Company

Pan Himalaya Energy Limited (PHEL) is a Public Limited company, incorporated as on December 27, 2005. It is promoted by individual promoters majorly related to MV Dugar group which has investments in other institutes which includes Banks, Construction company and Automobiles trading for setting up of a 77 MW run-of-river, Likhu 1 Hydropower Project (LIHP) in Solukhumbu and Ramechhap district of Nepal. Company has received FDI investment from Mogha Energy DMCC, UAE for the construction of project. MV Dugar Group is developing three hydropower projects including LIHP in Likhu river adjacently out of which one has already come into an operation. Further the group is developing another peaking run of river (PROR) hydropower project of 160 MW in Lapchii Khola. The project is constructed under BOOT (Build, own, Operate and Transfer) mechanism.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	10,312.41	CARE-NP BB
Total Facilities		10,312.41	

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